

**REPORT OF THE AUDIT OF THE
FORMER MCCREARY COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

July 14, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER MCCREARY COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

July 14, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for the former McCreary County Sheriff as of July 14, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$2,896,850 for the districts for 2005 taxes, retaining commissions of \$96,159 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$2,799,895 to the districts for 2005 Taxes. Taxes of \$4 are due to the districts from the former Sheriff and refunds of \$785 are due to the former Sheriff from the taxing districts.

Report Comments:

- The Former Sheriff Did Not Report And Pay Taxes In A Timely Manner Resulting In Penalties Of \$468
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Blaine Phillips, McCreary County Judge/Executive

Honorable Clarence Perry, Former McCreary County Sheriff

Honorable Guss Skinner, McCreary County Sheriff

Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the former McCreary County Sheriff's Settlement - 2005 Taxes as of July 14, 2006. This tax settlement is the responsibility of the former McCreary County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former McCreary County Sheriff's taxes charged, credited, and paid as of July 14, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 8, 2006 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Clarence Perry, Former McCreary County Sheriff
Honorable Guss Skinner, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments

- The Former Sheriff Did Not Report and Pay Taxes In A Timely Manner Resulting In Penalties Of \$468
- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 8, 2006

MCCREARY COUNTY
CLARENCE PERRY, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

July 14, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 285,645	\$ 597,096	\$ 1,122,584	\$ 375,455
Tangible Personal Property	38,377	42,631	73,931	54,679
Intangible Personal Property				38,317
Fire Protection	1,055			
Increases Through Exonerations	349	733	1,372	457
Franchise Taxes	89,425	112,425	209,695	
Additional Billings	58	88	227	178
Unmined Coal - 2005 Taxes	3,867	2,127	7,599	2,533
Oil and Gas Property Taxes	6,312	3,472	12,404	4,134
Penalties	4,623	9,244	17,448	5,785
Adjusted to Sheriff's Receipt	(4)	38	27	(91)
Gross Chargeable to Sheriff	<u>429,707</u>	<u>767,854</u>	<u>1,445,287</u>	<u>481,447</u>
<u>Credits</u>				
Exonerations	4,400	9,195	17,282	5,767
Discounts	4,171	7,945	14,916	6,254
Delinquents:				
Real Estate	18,449	38,344	72,387	24,129
Tangible Personal Property	752	845	1,448	1,138
Intangible Personal Property				9
Uncollected Franchise Taxes	<u>3</u>	<u>4</u>	<u>7</u>	
Total Credits	<u>27,775</u>	<u>56,333</u>	<u>106,040</u>	<u>37,297</u>
Taxes Collected	401,932	711,521	1,339,247	444,150
Less: Commissions *	<u>17,204</u>	<u>19,613</u>	<u>40,178</u>	<u>19,164</u>
Taxes Due	384,728	691,908	1,299,069	424,986
Taxes Paid	384,480	692,134	1,298,172	425,109
Refunds (Current and Prior Year)	248	528	924	345
Additional State Penalty				<u>468</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ (754)</u>	<u>\$ (27)</u>	<u>\$ 0</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement

MCCREARY COUNTY
 CLARENCE PERRY, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 2005 TAXES
 July 14, 2006
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,215,551
3% on	\$	1,339,247
1% on	\$	332,052

** Special Taxing Districts:

Library District	\$	2
Soil Conservation District		2
Central Fire District		(750)
West McCreary Fire District		<u>(8)</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(754)</u></u>
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MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

July 14, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCREARY COUNTY
NOTES TO THE FINANCIAL STATEMENT
July 14, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of July 14, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 21, 2005 through July 14, 2006.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2005. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 26, 2006 through July 14, 2006.

Note 4. Interest Income

The former McCreary County Sheriff earned \$596 as interest income on 2005 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the former Sheriff's office. As of December 8, 2006, the former Sheriff owed \$15 in interest to the school district and \$23 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former McCreary County Sheriff collected \$28,975 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the former Sheriff's office.

Note 6. Advertising Costs And Fees

The former McCreary County Sheriff collected \$1,892 of advertising costs and \$2,295 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The former Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the former Sheriff's office.

MCCREARY COUNTY
NOTES TO THE FINANCIAL STATEMENT
July 14, 2006
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the former Sheriff had \$318 in unrefundable duplicate payments and unexplained receipts. Therefore, the former Sheriff should send a written report to the Treasury Department.

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COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
CLARENCE PERRY, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

As of July 14, 2006

STATE LAWS AND REGULATIONS:

The Former Sheriff Did Not Report And Pay Taxes In A Timely Manner Resulting In Penalties Of \$468

The former Sheriff did not report and pay taxes to the taxing districts by the tenth of the following month as required by KRS 134.300 (1) and KRS 134.320 (1). Payments were made after the tenth of the following month for the taxes collected for November and December of 2005, and May and July of 2006. As a result of these late payments, the Department of Revenue charged the former Sheriff a penalty of \$468 as required by KRS 134.320 (3).

KRS.134.300 (4) states, “The county judge/executive may grant an extension of time, not to exceed fifteen (15) days, for filing the report required by subsection (1) and the reports for all other levies made by the fiscal court whenever, in his judgment, good cause therefor exists. The extension shall be in writing and shall be recorded in the office of the county clerk. The extension when granted shall suspend the penalty and interest for the duration of the extension. The penalty and interest shall apply at the expiration of the extension.” KRS 134.320 (4) states, “The Department of Revenue may grant an extension, not to exceed fifteen (15) days, for filing reports required by subsection (1) whenever, in its judgment, good cause therefor exists The extension when granted shall suspend the penalty and interest provided by subsection (3) for the duration of the extension. The penalty and interest shall apply at the expiration of the extension.” The former Sheriff did not request that any extensions be granted. We recommend the sheriff comply with KRS 134.300 and KRS 134.320 by reporting and paying taxes collected by the tenth day of the following month or more often if required by the County Judge/Executive or the Department of Revenue. If the sheriff is unable to do so, a request for an extension should be made with the County Judge/Executive and the Department of Revenue.

Former Sheriff's Response: None

INTERNAL CONTROL - REPORTABLE CONDITIONS/MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked proper segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the former Sheriff had limited options for establishing an adequate segregation of duties. The following compensating controls could have been implemented and documented to offset this internal control weakness:

- The former Sheriff should have periodically compared daily tax collection reports to the receipts ledger and deposit slip.
- The former Sheriff should have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled.
- The former Sheriff should have agreed monthly tax reports to the receipts and disbursements ledgers.

Former Sheriff's Response: None.

MCCREARY COUNTY
CLARENCE PERRY, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS
As of July 14, 2006
(Continued)

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties - This was not corrected in the current year and the comment is repeated.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Clarence Perry, Former McCreary County Sheriff
Honorable Guss Skinner, McCreary County Sheriff
Members of the McCreary County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former McCreary County Sheriff's Settlement - 2005 Taxes as of July 14, 2006, and have issued our report thereon dated December 8, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former McCreary County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former McCreary County Sheriff's Settlement - 2005 Taxes as of July 14, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Former Sheriff Did Not Report And Pay Taxes In A Timely Manner Resulting In Penalties Of \$468

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
December 8, 2006

